

CITY OF FOREST CITY, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2015

- Prepared By -

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# CITY OF FOREST CITY, IOWA

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**CITY OF FOREST CITY, IOWA**

**OFFICIALS**

<b><u>NAME</u></b>	<b><u>TITLE</u></b>	<b><u>TERM EXPIRES</u></b>
Rick Skjeie	Mayor	January 2016
Ronald Holland	Mayor Pro tem	January 2018
Brad Buffington	Council Member (Appointed)	January 2016
Jerome Clouse	Council Member	January 2016
Steve Hall	Council Member	Resigned
Robert Kuefler	Council Member	January 2016
Dennis Huling	Council Member	January 2018
Anthony Mikes	Council Member	January 2018
Jon West	Council Member	January 2018
Malcolm Tilberg	City Administrator/Clerk	Indefinite
Steve Bakke	Attorney	Indefinite



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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

## Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Forest City adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. My opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 5 through 9 and 32 through 36, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated December 14, 2015 on my consideration of the City of Forest City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Forest City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Larry Pump". The signature is written in black ink and is positioned above the typed name and date.

Charles City, Iowa  
December 14, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Forest City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2015 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities increased 8.0%, or approximately \$494,000 from fiscal year 2014 to fiscal year 2015. Operating grants, contributions and restricted interest and capital grants, contributions and restricted interest increased approximately \$1,357,000 and \$522,000, respectively. Bond proceeds decreased approximately \$1,877,000.

Disbursements of the City's governmental activities increased 73.6%, or approximately \$3,653,000, in fiscal year 2015 from fiscal year 2014. Public safety and public works disbursements increased approximately \$2,413,000 and \$752,000, respectively, while there were no disbursements that decreased.

The City's total cash basis net position decreased 27.2%, or approximately \$2,939,000 from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities decreased approximately \$1,501,000 and the cash basis net position of the business type activities decreased by approximately \$1,438,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system, electric and storm sewer. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds to provide separate information for the Water, Sewer Rental, Electric and Storm Sewer Funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.



Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3,422,000 to approximately \$1,921,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

#### Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 654	\$ 627
Operating grants, contributions and restricted interest	1,971	614
Capital grants, contributions and restricted interest	568	46
General receipts:		
Property tax	2,726	2,506
Local option sales tax	407	381
Unrestricted interest on investments	18	12
Bond proceeds	29	1,906
Other general receipts	300	87
Total receipts	<u>\$ 6,673</u>	<u>\$ 6,179</u>
Disbursements:		
Public safety	\$ 3,927	\$ 1,514
Public works	1,877	1,125
Health and social services	17	17
Culture and recreation	800	691
Community and economic development	834	617
General government	269	259
Debt service	876	729
Capital projects	14	9
Total disbursements	<u>\$ 8,614</u>	<u>\$ 4,961</u>
Change in cash basis net position before transfers	\$ (1,941)	\$ 1,218
Transfers, net	<u>440</u>	<u>439</u>
Change in cash basis net position	\$ (1,501)	\$ 1,657
Cash basis net position beginning of year	<u>3,422</u>	<u>1,765</u>
Cash basis net position end of year	<u>\$ 1,921</u>	<u>\$ 3,422</u>

The City's total receipts for governmental activities increased 8.0%, or approximately \$494,000. The total cost of all programs and services increased approximately \$3,653,000, or 73.6%, with no new programs added this year. The significant increase in disbursements was primarily the result of the construction cost of the new emergency service center.

The cost of all governmental activities this year was \$8,614,676 compared to \$4,962,102 last year. However, as shown in the Statement of Activities and Net Position on pages 10-13, the amount taxpayers ultimately financed for these activities was only \$5,421,418 because some of the cost was paid by those directly benefited from the programs (\$653,684) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$2,539,574). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2015 from approximately \$1,287,000 to approximately \$3,193,000 principally due to an increase in operating grants, contributions and restricted interest for the emergency service center project.

**Changes in Cash Basis Net Position of Business Type Activities**  
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 434	\$ 432
Sewer	638	705
Electric	6,068	6,239
Storm sewer	137	143
Capital grants, contributions and restricted interest	25	-
General receipts:		
Unrestricted interest on investments	18	14
Bond proceeds	2,334	400
Other general receipts	45	63
Total receipts	<u>\$ 9,699</u>	<u>\$ 7,996</u>
Disbursements:		
Water	\$ 446	\$ 449
Sewer	654	694
Electric	9,532	5,650
Storm sewer	65	554
Total disbursements	<u>\$10,697</u>	<u>\$ 7,347</u>
Change in cash basis net position before transfers	\$ (998)	\$ 649
Transfers, net	<u>(440)</u>	<u>(439)</u>
Change in cash basis net position	\$ (1,438)	\$ 210
Cash basis net position beginning of year	<u>7,378</u>	<u>7,168</u>
Cash basis net position end of year	<u>\$ 5,940</u>	<u>\$ 7,378</u>

Total business type activities receipts for the fiscal year were approximately \$9,699,000 compared to approximately \$7,996,000 last year. This increase was due primarily to revenue bond proceeds. The cash balance decreased by approximately \$1,438,000 from the prior year. Total disbursements for the fiscal year increased by 45.6% to a total of approximately \$10,697,000.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$1,907,429, a decrease of \$1,494,356 from last year's total of \$3,401,785. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$1,746,527 from the prior year to \$1,434,822. This significant decrease was due to construction costs of the emergency service center the year.

The Debt Service Fund cash balance increased \$49,385 to \$77,602 during the fiscal year. This increase was due to bond proceeds and transfers in. Bond principal and interest payments increased \$146,475 in fiscal year 2015.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Electric Fund cash balance decreased by \$1,349,314 to \$2,835,927 due to capital projects disbursements.

The Enterprise, Electric Capital Fund cash balance remained unchanged at \$1,200,000 due to no activity during the fiscal year.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on June 15, 2015 and resulted in an increase in operating revenue of \$901,521, and an increase in operating disbursements of \$1,459,808. The City had sufficient cash balances to absorb these additional costs.

The City exceeded the amounts budgeted in the health and social services, culture and recreation, capital projects and business type activities functions for the year ended June 30, 2015.

#### **DEBT ADMINISTRATION**

At June 30, 2015, the City had approximately \$7,056,000 in bonds and notes and other long-term debt outstanding, compared to approximately \$8,000,000 last year, as shown below.

##### **Outstanding Debt at Year-End** (Expressed in Thousands)

	June 30,	
	2015	2014
General obligation notes	\$ 4,350	\$ 5,060
Revenue bonds and notes	2,625	2,870
Capital leases	21	-
Real estate contract	60	70
Total	<u>\$ 7,056</u>	<u>\$ 8,000</u>

Debt decreased as a result of scheduled debt payments.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,430,136 is significantly below its constitutional debt limit of \$10,024,451.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Forest City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Malcolm Tilberg, City Administrator/Clerk, 305 North Clark Street, Forest City, Iowa 50436.

## **Basic Financial Statements**

CITY OF FOREST CITY, IOWA  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

		Program Receipts		
		Charges	Operating Grants,	Capital Grants,
	Disbursements	For	Contributions	Contributions
		Service	and Restricted	and Restricted
			Interest	Interest
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 3,927,111	\$ 15,043	\$ 1,053,243	\$ -
Public works	1,876,976	465,555	431,631	568,311
Health and social services	17,656	-	-	-
Culture and recreation	800,298	71,266	22,924	-
Community and economic development	833,984	-	438,608	-
General government	269,248	12,657	24,857	-
Debt service	875,699	89,163	-	-
Capital projects	13,704	-	-	-
Total governmental activities	<u>\$ 8,614,676</u>	<u>\$ 653,684</u>	<u>\$1,971,263</u>	<u>\$ 568,311</u>
Business type activities:				
Water	\$ 446,324	\$ 433,960	\$ -	\$ -
Sewer	654,107	637,723	-	-
Electric	9,532,141	6,067,694	-	-
Storm sewer	64,566	137,652	-	25,515
Total business type activities	<u>\$10,697,138</u>	<u>\$7,277,029</u>	<u>\$ -</u>	<u>\$ 25,515</u>
Total	<u>\$19,311,814</u>	<u>\$7,930,713</u>	<u>\$1,971,263</u>	<u>\$ 593,826</u>

(Continued)

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position**

<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
\$ (2,858,825)	\$ -	\$ (2,858,825)
(411,479)	-	(411,479)
(17,656)	-	(17,656)
(706,108)	-	(706,108)
(395,376)	-	(395,376)
(231,734)	-	(231,734)
(786,536)	-	(786,536)
(13,704)	-	(13,704)
<u>\$ (5,421,418)</u>	<u>\$ -</u>	<u>\$ (5,421,418)</u>
\$ -	\$ (12,364)	\$ (12,364)
-	(16,384)	(16,384)
-	(3,464,447)	(3,464,447)
-	98,601	98,601
<u>\$ -</u>	<u>\$ (3,394,594)</u>	<u>\$ (3,394,594)</u>
<u>\$ (5,421,418)</u>	<u>\$ (3,394,594)</u>	<u>\$ (8,816,012)</u>

**CITY OF FOREST CITY, IOWA**  
**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

**General Receipts and Transfers:**

Property and other city tax levied for:  
    General purposes  
    Debt service  
Tax increment financing  
Local option sales tax  
Unrestricted interest on investments  
Bond proceeds, net  
Miscellaneous  
Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

**Cash Basis Net Position**

Restricted:

    Nonexpendable:

        Cemetery perpetual care  
        Library trust

    Expendable:

        Streets  
        Debt service  
        Other purposes

Unrestricted

**Total cash basis net position**

*See Notes to Financial Statements.*

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position**

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ 1,592,808	\$ -	\$ 1,592,808
730,021	-	730,021
402,674	-	402,674
407,526	-	407,526
17,979	18,146	36,125
29,000	2,333,985	2,362,985
299,982	45,219	345,201
440,400	(440,400)	-
<u>\$ 3,920,390</u>	<u>\$ 1,956,950</u>	<u>\$ 5,877,340</u>
\$ (1,501,028)	\$ (1,437,644)	\$ (2,938,672)
<u>3,421,749</u>	<u>7,377,832</u>	<u>10,799,581</u>
<b><u>\$ 1,920,721</u></b>	<b><u>\$ 5,940,188</u></b>	<b><u>\$ 7,860,909</u></b>
\$ 46,879	\$ -	\$ 46,879
98,000	-	98,000
69,716	-	69,716
77,602	570,000	647,602
551,512	-	551,512
1,077,012	5,370,188	6,447,200
<b><u>\$ 1,920,721</u></b>	<b><u>\$ 5,940,188</u></b>	<b><u>\$ 7,860,909</u></b>



CITY OF FOREST CITY, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Debt Service</u>
<b>RECEIPTS:</b>		
Property tax	\$ 1,129,075	\$ 730,021
Tax increment financing	-	-
Other city tax	-	-
Licenses and permits	8,915	-
Use of money and property	26,272	-
Intergovernmental	749,885	-
Charges for service	524,467	-
Special assessments	-	89,163
Miscellaneous	1,401,350	-
Total receipts	<u>\$ 3,839,964</u>	<u>\$ 819,184</u>
<b>DISBURSEMENTS:</b>		
Operating:		
Public safety	\$ 3,927,111	\$ -
Public works	1,876,976	-
Health and social services	17,656	-
Culture and recreation	796,973	-
Community and economic development	252,027	-
General government	269,248	-
Debt service	-	875,699
Capital projects	-	-
Total disbursements	<u>\$ 7,139,991</u>	<u>\$ 875,699</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (3,300,027)</u>	<u>\$ (56,515)</u>
Other financing sources (uses):		
Advance bond proceeds	\$ -	\$ 29,000
Transfers in	1,553,500	76,900
Transfers out	-	-
Total other financing sources (uses)	<u>\$ 1,553,500</u>	<u>\$ 105,900</u>
Change in cash balances	\$ (1,746,527)	\$ 49,385
Cash balances beginning of year	<u>3,181,349</u>	<u>28,217</u>
<b>Cash balances end of year</b>	<b><u>\$ 1,434,822</u></b>	<b><u>\$ 77,602</u></b>
<b>Cash Basis Fund Balances:</b>		
Nonspendable	\$ -	\$ -
Restricted for:		
Urban renewal purposes	-	-
Debt service	-	77,602
Streets	-	-
Other purposes	-	-
Assigned for aquatic center	-	-
Assigned for streets	-	-
Unassigned	<u>1,434,822</u>	<u>-</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 1,434,822</u></b>	<b><u>\$ 77,602</u></b>

*See Notes to Financial Statements.*

<u>Nonmajor</u>	<u>Total</u>
\$ 414,277	\$ 2,273,373
402,674	402,674
456,982	456,982
-	8,915
117	26,389
553,986	1,303,871
-	524,467
-	89,163
163,736	1,565,086
<u>\$ 1,991,772</u>	<u>\$ 6,650,920</u>
\$ -	\$ 3,927,111
-	1,876,976
-	17,656
3,325	800,298
581,957	833,984
-	269,248
-	875,699
13,704	13,704
<u>\$ 598,986</u>	<u>\$ 8,614,676</u>
<u>\$ 1,392,786</u>	<u>\$ (1,963,756)</u>
\$ -	\$ 29,000
250,000	1,880,400
(1,440,000)	(1,440,000)
<u>\$ (1,190,000)</u>	<u>\$ 469,400</u>
\$ 202,786	\$ (1,494,356)
192,219	3,401,785
<u><b>\$ 395,005</b></u>	<u><b>\$ 1,907,429</b></u>
\$ 144,879	\$ 144,879
146,289	146,289
-	77,602
69,716	69,716
405,223	405,223
4,151	4,151
2,571	2,571
(377,824)	1,056,998
<u><b>\$ 395,005</b></u>	<u><b>\$ 1,907,429</b></u>

CITY OF FOREST CITY, IOWA  
 RECONCILIATION OF THE STATEMENT OF CASH  
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Total governmental funds cash balances (page 15) \$ 1,907,429

*Amounts reported for governmental activities in the Cash Basis  
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge costs to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

13,292

Cash basis net position of governmental activities (page 13) \$ 1,920,721

Change in cash balances (page 15) \$ (1,494,356)

*Amounts reported for governmental activities in the Cash Basis  
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge costs to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(6,672)

Change in cash basis net position of governmental activities (page 13) \$ (1,501,028)

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	<u>Enterprise</u>		
	<u>Electric</u>	<u>Electric Capital</u>	<u>Nonmajor</u>
Operating receipts:			
Charges for service	\$ 6,067,694	\$ -	\$ 1,184,125
Miscellaneous	-	-	25,210
Total operating receipts	<u>\$ 6,067,694</u>	<u>\$ -</u>	<u>\$ 1,209,335</u>
Operating disbursements:			
Business type activities	<u>5,768,644</u>	<u>-</u>	<u>985,341</u>
Excess of operating receipts over operating disbursements	<u>\$ 299,050</u>	<u>\$ -</u>	<u>\$ 223,994</u>
Non-operating receipts (disbursements):			
Intergovernmental	\$ -	\$ -	\$ 25,515
Interest on investments	14,258	-	3,888
Rents	-	-	7,467
Miscellaneous	41,890	-	-
Debt service	(2,622,747)	-	(114,573)
Capital projects	<u>(1,140,750)</u>	<u>-</u>	<u>(65,083)</u>
Net non-operating receipts (disbursements)	<u>\$ (3,707,349)</u>	<u>\$ -</u>	<u>\$ (142,786)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (3,408,299)</u>	<u>\$ -</u>	<u>\$ 81,208</u>
Other financing sources (uses):			
Bond proceeds	\$ 2,330,000	\$ -	\$ -
Bond premium	3,985	-	-
Transfers out	<u>(275,000)</u>	<u>-</u>	<u>(165,400)</u>
Total other financing sources (uses)	<u>\$ 2,058,985</u>	<u>\$ -</u>	<u>\$ (165,400)</u>
Change in cash balances	<u>\$ (1,349,314)</u>	<u>\$ -</u>	<u>\$ (84,192)</u>
Cash balances beginning of year	<u>4,185,241</u>	<u>1,200,000</u>	<u>1,980,225</u>
<b>Cash balances end of year</b>	<b><u>\$ 2,835,927</u></b>	<b><u>\$ 1,200,000</u></b>	<b><u>\$ 1,896,033</u></b>
<b>Cash Basis Fund Balances:</b>			
Restricted for debt service	\$ -	\$ -	\$ 570,000
Committed for:			
Water improvement	-	-	50,000
Sewer	-	-	350,000
Electric	-	1,200,000	300,000
Storm sewer	-	-	194,347
Unrestricted	<u>2,835,927</u>	<u>-</u>	<u>431,686</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 2,835,927</u></b>	<b><u>\$ 1,200,000</u></b>	<b><u>\$ 1,896,033</u></b>

*See Notes to Financial Statements.*

	Internal Service		
<u>Total</u>	<u>Clearing</u>	<u>Payroll Clearing</u>	<u>Total</u>
\$ 7,251,819	\$ -	\$ -	\$ -
25,210	-	3,273,347	3,273,347
<u>\$ 7,277,029</u>	<u>\$ -</u>	<u>\$ 3,273,347</u>	<u>\$ 3,273,347</u>
 6,753,985	 -	 -	 -
 \$ 523,044	 \$ -	 \$ 3,273,347	 \$ 3,273,347
 \$ 25,515	 \$ -	 \$ -	 \$ -
18,146	-	-	-
7,467	-	-	-
41,890	-	(3,284,156)	(3,284,156)
(2,737,320)	-	-	-
(1,205,833)	-	-	-
<u>\$ (3,850,135)</u>	<u>\$ -</u>	<u>\$ (3,284,156)</u>	<u>\$ (3,284,156)</u>
 \$ (3,327,091)	 \$ -	 \$ (10,809)	 \$ (10,809)
 \$ 2,330,000	 \$ -	 \$ -	 \$ -
3,985	-	-	-
(440,400)	-	-	-
<u>\$ 1,893,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 \$ (1,433,506)	 \$ -	 \$ (10,809)	 \$ (10,809)
 7,365,466	 5,646	 26,683	 32,329
<b><u>\$ 5,931,960</u></b>	<b><u>\$ 5,646</u></b>	<b><u>\$ 15,874</u></b>	<b><u>\$ 21,520</u></b>
 \$ 570,000	 \$ -	 \$ -	 \$ -
50,000	-	-	-
350,000	-	-	-
1,500,000	-	-	-
194,347	-	-	-
<u>3,267,613</u>	<u>5,646</u>	<u>15,874</u>	<u>21,520</u>
<b><u>\$ 5,931,960</u></b>	<b><u>\$ 5,646</u></b>	<b><u>\$ 15,874</u></b>	<b><u>\$ 21,520</u></b>

CITY OF FOREST CITY, IOWA  
 RECONCILIATION OF THE STATEMENT OF CASH  
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -  
 PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Total enterprise funds cash balances (page 18) \$ 5,931,960

*Amounts reported for business type activities in the Cash Basis  
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge costs to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

8,228

Cash basis net position of business type activities (page 13) \$ 5,940,188

Change in cash balances (page 18) \$ (1,433,506)

*Amounts reported for business type activities in the Cash Basis  
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge costs to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(4,138)

Change in cash basis net position of business type activities  
 (page 13) \$ (1,437,644)

See Notes to Financial Statements.

**CITY OF FOREST CITY, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**(1) Summary of Significant Accounting Policies**

The City of Forest City is a political subdivision of the State of Iowa located in Winnebago and Hancock Counties. It was first incorporated August 20, 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Forest City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North Iowa Area Council of Governments, Winnebago County Assessor's Conference Board, Hancock County Assessor's Conference Board and Winnebago County E-911 Board.

**B. Basis of Presentation**

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Funds.

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

(1) Summary of Significant Accounting Policies - continued

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric plant.

The Enterprise, Electric Capital Fund accounts for moneys reserved for future electric plant capital outlays.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for clearing and payroll clearing accounts.



**CITY OF FOREST CITY, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**(1) Summary of Significant Accounting Policies - continued**

**C. Measurement Focus and Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation, capital projects and business type activities functions.

**CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes and revenue bonds and notes are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Bonds and Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 590,000	\$ 141,102	\$ 310,000	\$ 67,389	\$ 900,000	\$ 208,491
2017	615,000	122,900	320,000	59,528	935,000	182,428
2018	625,000	103,544	330,000	51,228	955,000	154,772
2019	325,000	83,402	340,000	42,528	665,000	125,930
2020	330,000	74,546	350,000	33,473	680,000	108,019
2021-2025	1,525,000	232,360	975,000	62,824	2,500,000	295,184
2026	340,000	13,060	-	-	340,000	13,060
Total	<u>\$4,350,000</u>	<u>\$ 770,914</u>	<u>\$ 2,625,000</u>	<u>\$ 316,970</u>	<u>\$ 6,975,000</u>	<u>\$ 1,087,884</u>

Revenue Bonds and Notes

The City has pledged future sewer customer receipts, net of specified operating disbursement, to repay \$1,030,000 in sewer revenue notes issued in May 2008. Proceeds from the notes provided financing for constructing improvements and extensions to the municipal sewer utility. The notes are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$590,358. For the current year, principal and interest paid and total customer net receipts were \$114,073 and \$163,272, respectively.

**CITY OF FOREST CITY, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**(3) Bonds and Notes Payable** - continued

The City has pledged future electric customer receipts, net of specified operating disbursement, to repay \$2,330,000 in electric revenue bonds issued in October 2014. Proceeds from the bonds provided financing for constructing improvements to the municipal electric plant. The bonds are payable solely from electric customer net receipts and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,351,612. For the current year, principal and interest paid and total customer net receipts were \$264,105 and \$299,050, respectively.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions:

- a) At the option of the City, electric revenue bonds maturing after June 1, 2021 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- b) At the option of the City, sewer revenue notes maturing after June 1, 2017 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- c) The bonds and notes will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- d) Sufficient monthly transfers shall be made to separate electric and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- e) A transfer shall be made from the bond proceeds to the electric revenue bond reserve account and the sewer revenue reserve account in an amount equal to the principal and interest payments for the fiscal year. The reserve accounts are restricted for the purpose of paying principal and interest due on the revenue bonds when insufficient money is available in the revenue bond sinking account.
- f) Additional monthly transfers shall be made to an electric revenue improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other funds might be unable to make.

Real Estate Contract

On February 11, 2011, the City of Forest City acquired the local 18 hole golf course known as Bear Creek Run Golf Club for \$250,000. The terms of the purchase were \$150,000 down payment with the balance of \$100,000 payable in annual installments of \$10,000 per annum. These payments are then assigned to Bear Creek Run Golf Club, Inc. for purposes of management of the golf course. The golf course contract is non-interest bearing with the final payment due February 11, 2021. The contract balance at June 30, 2015 was \$60,000.

**CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(4) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

A multiplier (based on years of service).

The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

(4) Pension Plan - continued

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$213,809.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$832,722. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.216269 percent, which was an increase of 0.009235 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$87,266, \$54,042 and \$(535,840) respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

**CITY OF FOREST CITY, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**(4) Pension Plan - continued**

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability	\$2,014,538	\$ 832,722	\$ (164,402)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**CITY OF FOREST CITY, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits and dental insurance for employees, retirees and their spouses. There are 43 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$769 for single coverage and \$1,333 for family coverage. For the year ended June 30, 2015, the City contributed \$409,418 and plan members eligible for benefits contributed \$40,515 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, comp and personal leave hours for subsequent use or for payment upon termination, retirement or death at rates dependent on years of service. However, sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, comp and personal leave payable to employees at June 30, 2015, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$180,126
Compensatory time	37,319
Personal	4,355
Total	<u>\$221,800</u>

This liability has been computed based on rates of pay in effect at June 30, 2015.

**(7) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Economic Development**

On February 13, 2009, the City loaned \$15,000 to Pilates by Ginnie. The loan proceeds were used to start up and operate a business in Forest City. The loan bears interest at 3%. Interest only payments are required on February 1, 2010 and 2012. Pilates by Ginnie is obligated to repay the City in annual installments of \$3,000 plus interest beginning February 1, 2012. The loan balance at June 30, 2015 was \$8,009.

**CITY OF FOREST CITY, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**(8) Economic Development - continued**

On July 1, 2009, the City loaned \$15,000 to Nu 2 U Consignment. The loan proceeds were used to start up and operate a consignment business in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2010 and 2011. Nu 2 U Consignment is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. During the year ended June 30, 2015, the loan balance was paid off.

On July 1, 2009, the City loaned \$15,000 to Hansen Hardware. The loan proceeds were used to operate a hardware business in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2010 and 2012. Hansen Hardware is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. The loan balance at June 30, 2015 was \$5,125.

On July 1, 2009, the City loaned \$15,000 to Tora Buffington. The loan proceeds were used to start up and operate a book store in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2010 and 2011. Tora Buffington is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. The loan balance at June 30, 2015 was \$8,603.

On May 1, 2010, the City loaned \$15,000 to Standard Exchange. The loan proceeds were used to start up and operate a business in Forest City. The loan bears interest at 3%. Interest only payments are required on May 1, 2011 and 2012. Standard Exchange is obligated to repay the City in monthly installments of \$270 beginning July 1, 2012. The loan balance at June 30, 2015 was \$13,010.

On July 1, 2009, the City loaned \$15,000 to Scoopy Doos Ice Cream and More. The loan proceeds were used to start up and operate an ice cream business in Forest City. The loan bears interest at 3%. Interest only payments are required on July 1, 2011 and 2012. Scoopy Doos Ice Cream and More is obligated to repay the City in monthly installments of \$270 beginning July 1, 2012. The loan balance at June 30, 2015 was \$6,194.

On September 15, 2010, the City loaned \$15,000 to Digitallic. The loan proceeds were used to start up and operate a photo processing and sales store in Forest City. The loan bears interest at 3%. Interest only payments are required on September 15, 2011 and 2012. Digitallic is obligated to repay the City in monthly installments of \$270 beginning October 1, 2012. The loan balance at June 30, 2015 was \$6,676.

On February 23, 2011, the City loaned \$15,000 to Rockledge Holdings. The loan proceeds were used to improve a downtown commercial building in Forest City. The loan bears interest at 3%. Interest only payments are required on February 23, 2012 and 2013. Rockledge Holdings is obligated to repay the City in monthly installments of \$270 beginning July 1, 2013. The loan balance at June 30, 2015 was \$13,625.



**CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(9) Forgivable Loan**

On August 31, 2004, the City loaned \$52,000 to CDI, Inc. The loan proceeds were used to operate a painting facility in Forest City. The amount loaned by the City is forgivable and had a balance of \$52,000 at June 30, 2015.

**(10) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 400,000
	Employee Benefits	400,000
	Local Option Sales Tax	390,000
		<u>\$1,190,000</u>
General	Enterprise:	
	Water	\$ 15,000
	Sewer Rental	68,500
	Electric	275,000
	Storm Sewer	5,000
		<u>\$ 363,500</u>
Special Revenue:	Special Revenue:	
CDBG	Tax Increment Financing	\$ 250,000
Debt Service	Enterprise:	
	Water	\$ 15,000
	Storm Sewer	61,900
		<u>\$ 76,900</u>
Total		<u>\$1,880,400</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(11) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$3,142 during the year ended June 30, 2015.

**(12) Deficit Balance**

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$377,824 at June 30, 2015. The deficit will be eliminated upon receipt of property taxes.

**(13) Golf Course Management Agreement**

On February 11, 2011, the City entered into a management agreement with Bear Creek Run Golf Club, Inc. (Manager) for the purpose of managing the City owned 18 hole golf course. This ten year agreement that runs through March 31, 2021 stipulates that the Manager has the exclusive privilege and obligation to operate the Golf Course, including, but not limited to, maintenance, memberships, cart rentals, restaurant and banquet facilities, merchandise and special events. The City receives no payment for this agreement.

CITY OF FOREST CITY, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

(14) Commitments

At June 30, 2015, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Emergency Service Center	\$2,595,206	\$2,406,346
Apron Expansion	488,727	470,224
Overhead to Underground Conversion	578,819	572,419
2014 Electric Meter Cutover	61,097	58,437
Downtown Revitalization	584,523	255,142
2015 Runway	208,996	-
Total	<u>\$4,517,368</u>	<u>\$3,762,568</u>

(15) Capital Lease

The City leases equipment on a capital lease basis. The following is a schedule, by years, of future payments required under the lease:

<u>Year ended June 30,</u>	
2016	\$ 7,266
2017	7,266
2018	<u>7,266</u>
Total minimum lease payments	\$ 21,798
Amounts representing interest	<u>1,662</u>
Present value of net minimum lease payments	<u>\$ 20,136</u>

(16) Subsequent Events

On July 6, 2015, the City authorized the issuance of \$1,445,000 and \$960,000 of General Obligation Refunding Bonds.

The City approved the sale of \$1,200,000 of General Obligation Capital Loan Notes on August 17, 2015.

On September 8, 2015, the City awarded the Power Plant "Neshap" Project contract to Farabee Mechanical in the amount of \$821,023.

The City awarded the 2015 Riverview Drive Storm Sewer Outlet Project contract to Rognes Brothers' Excavating, Inc. in the amount of \$42,500.

## Other Information

CITY OF FOREST CITY, IOWA  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL  
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION  
YEAR ENDED JUNE 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
<b>RECEIPTS:</b>			
Property tax	\$ 2,273,373	\$ -	\$ -
Tax increment financing	402,674	-	-
Other city tax	456,982	-	-
Licenses and permits	8,915	-	-
Use of money and property	26,389	25,613	-
Intergovernmental	1,303,871	25,515	-
Charges for service	524,467	7,277,029	-
Special assessments	89,163	-	-
Miscellaneous	1,565,086	3,315,237	3,273,347
Total receipts	<u>\$ 6,650,920</u>	<u>\$10,643,394</u>	<u>\$ 3,273,347</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 3,927,111	\$ -	\$ -
Public works	1,876,976	-	-
Health and social services	17,656	-	-
Culture and recreation	800,298	-	-
Community and economic development	833,984	-	-
General government	269,248	-	-
Debt service	875,699	-	-
Capital projects	13,704	-	-
Business type activities	-	13,981,294	3,284,156
Total disbursements	<u>\$ 8,614,676</u>	<u>\$13,981,294</u>	<u>\$ 3,284,156</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (1,963,756)	\$ (3,337,900)	\$ (10,809)
Other financing sources, net	<u>469,400</u>	<u>1,893,585</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (1,494,356)	\$ (1,444,315)	\$ (10,809)
Balances beginning of year	<u>3,401,785</u>	<u>7,365,466</u>	<u>32,329</u>
<b>Balances end of year</b>	<u><b>\$ 1,907,429</b></u>	<u><b>\$ 5,921,151</b></u>	<u><b>\$ 21,520</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$2,273,373	\$ 2,191,173	\$ 2,201,493	\$ 71,880
402,674	805,837	835,921	(433,247)
456,982	418,320	408,000	48,982
8,915	7,670	9,500	(585)
52,002	16,410	28,400	23,602
1,329,386	1,629,124	2,215,183	(885,797)
7,801,496	7,793,790	8,144,265	(342,769)
89,163	70,000	70,000	19,163
1,606,976	206,550	127,633	1,479,343
<u>\$14,020,967</u>	<u>\$13,138,874</u>	<u>\$14,040,395</u>	<u>\$ (19,428)</u>
\$ 3,927,111	\$ 4,216,085	\$ 4,441,085	\$ 513,974
1,876,976	1,778,940	1,908,938	31,962
17,656	17,500	17,500	(156)
800,298	697,180	789,180	(11,118)
833,984	1,413,761	1,413,791	579,807
269,248	253,780	283,780	14,532
875,699	875,849	875,849	150
13,704	10,000	10,000	(3,704)
10,697,138	7,264,854	8,247,634	(2,449,504)
<u>\$19,311,814</u>	<u>\$16,527,949</u>	<u>\$17,987,757</u>	<u>\$ (1,324,057)</u>
\$ (5,290,847)	\$ (3,389,075)	\$ (3,947,362)	\$ (1,343,485)
<u>2,362,985</u>	<u>113,700</u>	<u>113,700</u>	<u>2,249,285</u>
\$ (2,927,862)	\$ (3,275,375)	\$ (3,833,662)	\$ 905,800
<u>10,734,922</u>	<u>11,330,171</u>	<u>11,330,171</u>	<u>(595,249)</u>
<u><b>\$ 7,807,060</b></u>	<u><b>\$ 8,054,796</b></u>	<u><b>\$ 7,496,509</b></u>	<u><b>\$ 310,551</b></u>

**CITY OF FOREST CITY, IOWA**  
**NOTES TO OTHER INFORMATION - BUDGETARY REPORTING**  
**JUNE 30, 2015**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,459,808. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation, capital projects and business type activities functions.

CITY OF FOREST CITY, IOWA  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR \* (IN THOUSANDS)

OTHER INFORMATION

	<u>2015</u>
City's proportion of the net pension liability	0.216269%
City's proportionate share of the net pension liability	\$ 833
City's covered-employee payroll	\$ 2,310
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	36.06%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

*See Accompanying Independent Auditor's Report.*

CITY OF FOREST CITY, IOWA  
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR (IN THOUSANDS)

OTHER INFORMATION

	<u>2015</u>
Statutorily required contribution	\$ 214
Contributions in relation to the statutorily required contribution	<u>(214)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 2,310
Contributions as a percentage of covered-employee payroll	9.26%

*See Accompanying Independent Auditor's Report.*



**CITY OF FOREST CITY, IOWA**  
**NOTES TO OTHER INFORMATION - PENSION LIABILITY**  
**YEAR ENDED JUNE 30, 2015**

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

Decreased the inflation assumption from 3.25 percent to 3.00 percent.

Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.

Adjusted male mortality rates for retirees in the Regular membership group.

Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.

Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

Adjusted retiree mortality assumptions.

Modified retirement rates to reflect fewer retirements.

Lowered disability rates at most ages.

Lowered employment termination rates.

Generally increased the probability of terminating members receiving a deferred retirement benefit.

Modified salary increase assumptions based on various service duration.

**CITY OF FOREST CITY, IOWA**  
**NOTES TO OTHER INFORMATION - PENSION LIABILITY**  
**YEAR ENDED JUNE 30, 2015**

Changes of assumptions: - continued

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

Adjusted salary increase assumptions to service based assumptions.

Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.

Lowered the inflation assumption from 3.50 percent to 3.25 percent.

Lowered disability rates for sheriffs and deputies and protection occupation members.

## Supplementary Information

CITY OF FOREST CITY, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Special				
	Tax Increment Financing	Road Use Tax	Employee Benefits	Local Option Sales Tax	Hotel Motel Tax
<b>RECEIPTS:</b>					
Property tax	\$ -	\$ -	\$ 414,277	\$ -	\$ -
Tax increment financing	376,720	-	-	-	-
Other city tax	-	-	-	407,526	49,456
Use of money and property	-	-	-	-	-
Intergovernmental	-	431,631	-	-	-
Miscellaneous	7,530	-	-	-	-
Total receipts	<u>\$ 384,250</u>	<u>\$ 431,631</u>	<u>\$ 414,277</u>	<u>\$ 407,526</u>	<u>\$ 49,456</u>
<b>DISBURSEMENTS:</b>					
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -
Community and economic development	227,278	-	-	-	37,354
Capital projects	-	-	-	-	-
Total disbursements	<u>\$ 227,278</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,354</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 156,972</u>	<u>\$ 431,631</u>	<u>\$ 414,277</u>	<u>\$ 407,526</u>	<u>\$ 12,102</u>
Other financing sources(uses):					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	(250,000)	(400,000)	(400,000)	(390,000)	-
Total other financing sources (uses)	<u>\$ (250,000)</u>	<u>\$ (400,000)</u>	<u>\$ (400,000)</u>	<u>\$ (390,000)</u>	<u>\$ -</u>
Change in cash balances	\$ (93,028)	\$ 31,631	\$ 14,277	\$ 17,526	\$ 12,102
Cash balances beginning of year	(284,796)	38,085	24,261	98,053	16,476
<b>Cash balances end of year</b>	<b><u>\$ (377,824)</u></b>	<b><u>\$ 69,716</u></b>	<b><u>\$ 38,538</u></b>	<b><u>\$ 115,579</u></b>	<b><u>\$ 28,578</u></b>
<b>Cash Basis Fund Balances:</b>					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for other purpose	-	69,716	38,538	115,579	28,578
Assigned for aquatic center	-	-	-	-	-
Assigned for street	-	-	-	-	-
Unassigned	(377,824)	-	-	-	-
<b>Total cash basis fund balances</b>	<b><u>\$ (377,824)</u></b>	<b><u>\$ 69,716</u></b>	<b><u>\$ 38,538</u></b>	<b><u>\$ 115,579</u></b>	<b><u>\$ 28,578</u></b>

See Accompanying Independent Auditor's Report.

Revenue			Capital Projects		Permanent		Total
Low-Moderate Income	ED/RLF	CDBG	Street Improvement	Aquatic Center	Cemetery Perpetual Care	Library Trust	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 414,277
25,954	-	-	-	-	-	-	402,674
-	-	-	-	-	-	-	456,982
-	-	-	-	-	-	117	117
-	-	121,440	-	-	-	915	553,986
-	-	154,764	-	-	450	992	163,736
<u>\$ 25,954</u>	<u>\$ -</u>	<u>\$276,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450</u>	<u>\$ 2,024</u>	<u>\$ 1,991,772</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,325	\$ 3,325
-	-	317,325	-	-	-	-	581,957
-	-	-	-	13,704	-	-	13,704
<u>\$ -</u>	<u>\$ -</u>	<u>\$317,325</u>	<u>\$ -</u>	<u>\$ 13,704</u>	<u>\$ -</u>	<u>\$ 3,325</u>	<u>\$ 598,986</u>
<u>\$ 25,954</u>	<u>\$ -</u>	<u>\$ (41,121)</u>	<u>\$ -</u>	<u>\$ (13,704)</u>	<u>\$ 450</u>	<u>\$ (1,301)</u>	<u>\$ 1,392,786</u>
\$ -	\$ -	\$250,000	\$ -	\$ -	\$ -	\$ -	\$ 250,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,440,000)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$250,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,190,000)</u>
\$ 25,954	\$ -	\$208,879	\$ -	\$ (13,704)	\$ 450	\$ (1,301)	\$ 202,786
<u>120,335</u>	<u>52,500</u>	<u>(41,909)</u>	<u>2,571</u>	<u>17,855</u>	<u>46,429</u>	<u>102,359</u>	<u>192,219</u>
<u><b>\$146,289</b></u>	<u><b>\$ 52,500</b></u>	<u><b>\$166,970</b></u>	<u><b>\$ 2,571</b></u>	<u><b>\$ 4,151</b></u>	<u><b>\$ 46,879</b></u>	<u><b>\$101,058</b></u>	<u><b>\$ 395,005</b></u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,879	\$ 98,000	\$ 144,879
146,289	52,500	166,970	-	-	-	3,058	621,228
-	-	-	-	4,151	-	-	4,151
-	-	-	2,571	-	-	-	2,571
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(377,824)</u>
<u><b>\$146,289</b></u>	<u><b>\$ 52,500</b></u>	<u><b>\$166,970</b></u>	<u><b>\$ 2,571</b></u>	<u><b>\$ 4,151</b></u>	<u><b>\$ 46,879</b></u>	<u><b>\$101,058</b></u>	<u><b>\$ 395,005</b></u>

CITY OF FOREST CITY, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise				
	Water	Water Sinking	Water Improvement	Sewer Rental	Sewer Sinking
Operating receipts:					
Charges for service	\$425,466	\$ -	\$ -	\$ 621,007	\$ -
Miscellaneous	8,494	-	-	16,716	-
Total operating receipts	<u>\$433,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 637,723</u>	<u>\$ -</u>
Operating disbursements:					
Business type activities	<u>446,324</u>	<u>-</u>	<u>-</u>	<u>474,451</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (12,364)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,272</u>	<u>\$ -</u>
Non-operating receipts (disbursements):					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on investments	3,262	-	-	626	-
Rents	7,467	-	-	-	-
Debt service	-	-	-	(114,573)	-
Capital projects	-	-	-	(65,083)	-
Net non-operating receipts (disbursements)	<u>\$ 10,729</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (179,030)</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (1,635)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (15,758)</u>	<u>\$ -</u>
Transfers out	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>(68,500)</u>	<u>-</u>
Change in cash balances	<u>\$ (31,635)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (84,258)</u>	<u>\$ -</u>
Cash balances beginning of year	<u>339,261</u>	<u>120,000</u>	<u>50,000</u>	<u>208,318</u>	<u>150,000</u>
<b>Cash balances end of year</b>	<b><u>\$307,626</u></b>	<b><u>\$120,000</u></b>	<b><u>\$ 50,000</u></b>	<b><u>\$ 124,060</u></b>	<b><u>\$150,000</u></b>
<b>Cash Basis Fund Balances:</b>					
Restricted for debt service	\$ -	\$120,000	\$ -	\$ -	\$150,000
Committed for:					
Water improvement	-	-	50,000	-	-
Sewer	-	-	-	-	-
Electric	-	-	-	-	-
Storm sewer	-	-	-	-	-
Unrestricted	<u>307,626</u>	<u>-</u>	<u>-</u>	<u>124,060</u>	<u>-</u>
<b>Total cash basis fund balances</b>	<b><u>\$307,626</u></b>	<b><u>\$120,000</u></b>	<b><u>\$ 50,000</u></b>	<b><u>\$ 124,060</u></b>	<b><u>\$150,000</u></b>

*See Accompanying Independent Auditor's Report.*

<u>Sewer Reserve</u>	<u>Electric Sinking</u>	<u>Electric Reserve</u>	<u>Storm Sewer</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 137,652	\$ 1,184,125
-	-	-	-	25,210
\$ -	\$ -	\$ -	\$ 137,652	\$ 1,209,335
-	-	-	64,566	985,341
\$ -	\$ -	\$ -	\$ 73,086	\$ 223,994
\$ -	\$ -	\$ -	\$ 25,515	\$ 25,515
-	-	-	-	3,888
-	-	-	-	7,467
-	-	-	-	(114,573)
-	-	-	-	(65,083)
\$ -	\$ -	\$ -	\$ 25,515	\$ (142,786)
\$ -	\$ -	\$ -	\$ 98,601	\$ 81,208
-	-	-	(66,900)	(165,400)
\$ -	\$ -	\$ -	\$ 31,701	\$ (84,192)
350,000	300,000	300,000	162,646	1,980,225
<b><u>\$ 350,000</u></b>	<b><u>\$ 300,000</u></b>	<b><u>\$ 300,000</u></b>	<b><u>\$ 194,347</u></b>	<b><u>\$ 1,896,033</u></b>
\$ -	\$ 300,000	\$ -	\$ -	\$ 570,000
-	-	-	-	50,000
350,000	-	-	-	350,000
-	-	300,000	-	300,000
-	-	-	194,347	194,347
-	-	-	-	431,686
<b><u>\$ 350,000</u></b>	<b><u>\$ 300,000</u></b>	<b><u>\$ 300,000</u></b>	<b><u>\$ 194,347</u></b>	<b><u>\$ 1,896,033</u></b>

CITY OF FOREST CITY, IOWA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2015

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Notes:</b>			
Essential Corporate Purpose	06-01-03	1.40 - 3.75%	\$1,255,000
Essential Corporate Purpose	12-01-06	3.65 - 4.40	2,000,000
Essential Corporate Purpose	05-01-08	2.60 - 3.70	2,540,000
Essential Corporate Purpose	09-04-13	2.00 - 3.40	2,300,000
<b>Revenue Bonds and Notes:</b>			
Electric	05-24-05	4.52%	\$3,500,000
Sewer	05-01-08	2.80 - 4.10	1,030,000
Electric	10-01-14	2.00 - 2.65	2,330,000
<b>Capital Leases:</b>			
Mower	09-26-14	4.00%	\$ 27,402
<b>Real Estate Contract:</b>			
Golf Course	02-11-11	0.00%	\$ 100,000
<b>Total indebtedness</b>			

*See Accompanying Independent Auditor's Report.*



<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 140,000	\$ -	\$ 140,000	\$ -	\$ 5,250	\$ -
1,455,000	-	95,000	1,360,000	60,449	-
1,220,000	-	290,000	930,000	43,215	-
2,245,000	-	185,000	2,060,000	54,535	-
<u>\$ 5,060,000</u>	<u>\$ -</u>	<u>\$ 710,000</u>	<u>\$ 4,350,000</u>	<u>\$ 163,449</u>	<u>\$ -</u>
\$ 2,255,000	\$ -	\$2,255,000	\$ -	\$ 101,926	\$ -
615,000	-	90,000	525,000	24,073	-
-	2,330,000	230,000	2,100,000	34,105	-
<u>\$ 2,870,000</u>	<u>\$2,330,000</u>	<u>\$2,575,000</u>	<u>\$ 2,625,000</u>	<u>\$ 160,104</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 27,402</u>	<u>\$ 7,266</u>	<u>\$ 20,136</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u><u>\$ 8,000,000</u></u>	<u><u>\$2,357,402</u></u>	<u><u>\$3,302,266</u></u>	<u><u>\$ 7,055,136</u></u>	<u><u>\$ 323,553</u></u>	<u><u>\$ -</u></u>

CITY OF FOREST CITY, IOWA  
BOND AND NOTE MATURITIES  
JUNE 30, 2015

Year Ending June 30,	G E N E R A L      O B L I G A T I O N			
	Essential		Essential	
	Corporate Purpose		Corporate Purpose	
	Issued December 1, 2006		Issued May 1, 2008	
	Interest Rates	Amount	Interest Rates	Amount
2016	3.90%	\$ 100,000	3.50%	\$ 300,000
2017	4.00	105,000	3.60	310,000
2018	4.00	110,000	3.70	320,000
2019	4.05	115,000		-
2020	4.10	115,000		-
2021	4.15	120,000		-
2022	4.20	125,000		-
2023	4.25	135,000		-
2024	4.30	140,000		-
2025	4.35	145,000		-
2026	4.40	150,000		-
<b>Total</b>		<b><u>\$1,360,000</u></b>		<b><u>\$ 930,000</u></b>

Year Ending June 30,	R E V E N U E   B O N D S   A N D   N O T E S				
	Sewer		Electric		Total
	Issued May 1, 2008		Issued October 1, 2014		
	Interest Rates	Amount	Interest Rates	Amount	
2016	3.75%	\$ 95,000	2.00%	\$ 215,000	\$ 310,000
2017	3.90	100,000	2.00	220,000	320,000
2018	4.00	105,000	2.00	225,000	330,000
2019	4.05	110,000	2.00	230,000	340,000
2020	4.10	115,000	2.00	235,000	350,000
2021		-	2.15	235,000	235,000
2022		-	2.50	240,000	240,000
2023		-	2.55	245,000	245,000
2024		-	2.65	255,000	255,000
Total		\$ 525,000		\$2,100,000	\$2,625,000

*See Accompanying Independent Auditor's Report.*

## N O T E S

Essential		
Corporate Purpose		
Issued September 4, 2013		
Interest Rates	Amount	Total
2.00%	\$ 190,000	\$ 590,000
2.00	200,000	615,000
2.00	195,000	625,000
2.00	210,000	325,000
2.00	215,000	330,000
2.30	160,000	280,000
2.60	160,000	285,000
2.75	170,000	305,000
3.10	180,000	320,000
3.20	190,000	335,000
3.40	190,000	340,000
	<u>\$2,060,000</u>	<u>\$4,350,000</u>

**CITY OF FOREST CITY, IOWA**  
**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Receipts:				
Property tax	\$2,273,373	\$1,958,300	\$1,926,282	\$1,853,479
Tax increment financing	402,674	504,054	511,596	529,341
Other city tax	456,982	425,235	418,410	400,659
Licenses and permits	8,915	9,982	7,395	7,670
Use of money and property	26,389	19,157	19,411	23,259
Intergovernmental	1,303,871	639,717	695,071	700,411
Charges for service	524,467	504,566	484,158	497,937
Special assessments	89,163	877,514	114,279	153,610
Miscellaneous	1,565,086	132,723	190,791	485,805
<b>Total</b>	<b><u>\$6,650,920</u></b>	<b><u>\$5,071,248</u></b>	<b><u>\$4,367,393</u></b>	<b><u>\$4,652,171</u></b>
Disbursements:				
Operating:				
Public safety	\$3,927,111	\$1,513,973	\$1,226,621	\$1,526,479
Public works	1,876,976	1,125,455	1,369,665	1,306,080
Health and social services	17,656	17,130	14,644	17,037
Culture and recreation	800,298	690,924	662,552	722,427
Community and economic development	833,984	617,488	702,580	371,083
General government	269,248	259,247	246,942	225,828
Debt service	875,699	729,224	628,876	628,974
Capital projects	13,704	8,661	15,332	10,051
<b>Total</b>	<b><u>\$8,614,676</u></b>	<b><u>\$4,962,102</u></b>	<b><u>\$4,867,212</u></b>	<b><u>\$4,807,959</u></b>

*See Accompanying Independent Auditor's Report.*

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$1,803,228	\$1,805,951	\$1,723,729	\$1,575,368	\$1,354,261	\$1,320,332
354,685	293,081	226,794	213,873	245,779	166,442
385,194	345,447	423,960	335,532	346,408	313,419
8,122	6,359	8,221	9,830	8,190	8,840
32,614	64,016	167,755	287,930	328,316	203,483
1,199,910	998,243	1,365,712	726,167	1,074,161	893,940
494,186	459,376	444,825	465,544	398,769	386,510
99,990	33,748	43,505	44,453	37,233	49,448
233,085	308,069	503,153	491,381	837,448	338,748
<u><b>\$4,611,014</b></u>	<u><b>\$4,314,290</b></u>	<u><b>\$4,907,654</b></u>	<u><b>\$4,150,078</b></u>	<u><b>\$4,630,565</b></u>	<u><b>\$3,681,162</b></u>
\$1,076,840	\$1,207,657	\$1,048,450	\$ 959,784	\$ 989,741	\$1,063,005
1,262,928	1,107,648	1,828,065	952,563	1,232,196	948,615
17,622	17,234	20,614	17,052	44,693	43,142
851,228	701,727	605,461	607,439	879,860	665,101
1,069,562	1,154,998	359,948	443,449	519,873	393,957
228,016	236,969	209,378	205,652	190,579	190,425
627,831	625,551	571,188	488,804	325,790	423,723
114,216	1,552,282	749,167	2,752,128	127,089	54,063
<u><b>\$5,248,243</b></u>	<u><b>\$6,604,066</b></u>	<u><b>\$5,392,271</b></u>	<u><b>\$6,426,871</b></u>	<u><b>\$4,309,821</b></u>	<u><b>\$3,782,031</b></u>

CITY OF FOREST CITY, IOWA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2015

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
<b>Indirect:</b>			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	13-DTR-004	\$ 157,210
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Airport Improvement Program	20.106	3-19-0034-013	\$ 37,545
	20.106	3-19-0034-014	499,549
	20.106	3-19-0034-015	29,281
			<u>\$ 566,375</u>
<b>Total</b>			<b><u>\$ 723,585</u></b>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Forest City and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

*See Accompanying Independent Auditor's Report.*



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**INDEPENDENT AUDITOR'S REPORT**  
**ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE**  
**AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED**  
**IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated December 14, 2015. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Forest City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Forest City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Forest City's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Part II of the accompanying Schedule of Findings, I identified a deficiency in internal control I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Forest City's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-15 and II-C-15 to be a material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying Schedule of Findings as item II-B-15 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Forest City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The City of Forest City's Responses to the Findings

The City of Forest City's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Forest City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Forest City during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Charles City, Iowa  
December 14, 2015





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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**  
**FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**  
**REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and  
Members of the City Council:

Report on Compliance for Each Major Federal Program

I have audited the City of Forest City, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Forest City's major federal program for the year ended June 30, 2015. The City of Forest City's major federal program is identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for the City of Forest City's major federal program based on my audit of the types of compliance requirements referred to above. I conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Forest City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe my audit provides a reasonable basis for my opinion on compliance for the major federal program. However, my audit does not provide legal determination of the City of Forest City's compliance.

Opinion on Each Major Federal Program

In my opinion, the City of Forest City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The management of the City of Forest City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City of Forest City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures

appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the City of Forest City's internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Forest City's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. No deficiencies in internal control over compliance I consider to be a material weaknesses were noted.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Larry Pump". The signature is fluid and cursive, with the first name "Larry" and the last name "Pump" clearly distinguishable.

Charles City, Iowa  
December 14, 2015

**CITY OF FOREST CITY, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2015**

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 - Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Forest City did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- II-A-15      Check Signing - I noted several checks that were signed by an employee that was not an authorized signatory. Also, I noted several checks that were missing the signature.
- Recommendation - Checks should be prepared and the supporting documentation along with the check should be presented for signature. Only authorized City officials or employees listed on the signature cards should sign checks.
- Response - We will do this.
- Conclusion - Response accepted.
- II-B-15      Post-dated checks - I noted that the City is post-dating checks.
- Recommendation - The City should avoid the use of post-dating checks.
- Response - We will discontinue the use of post-dating checks in the future.
- Conclusion - Response accepted.
- II-C-15      Posting of Financial Transactions - The receipt and disbursement entries for the Electric Revenue Refunding Note were not recorded properly in the general ledger.

**CITY OF FOREST CITY, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2015**

**Part II: Findings Related to the Financial Statements:** - continued

Recommendation - Total receipts and disbursements should be posted in the general ledger rather than the net entry.

Response - We will do this in the future.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

No matters were noted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-15      Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the health and social services, culture and recreation, capital projects and business type activities functions. Chapter 384.18 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Also, the budget was not certified prior to March 15<sup>th</sup> and the amended budget was certified after May 31<sup>st</sup>.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, budgets should be certified prior to the due dates.

Response - The budget will be amended in the future, if applicable, in accordance with the Code of Iowa.

Conclusion - Response accepted.

IV-B-15      Questionable Disbursements - No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-15      Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**CITY OF FOREST CITY, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2015**

**Part IV: Other Findings Related to Required Statutory Reporting:** - continued

IV-D-15      Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tony Coloff, Cable TV Committee, Owner KIOW Radio Station	Advertising/legal publications	\$3,142

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with Tony Coloff may represent a conflict of interest since the total transaction was over \$1,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

Conclusion - Response accepted.

IV-E-15      Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-15      City Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

The City Council minutes record did not document the vote of each member present on one occasion as required by Chapter 21 of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa.

Response - We will comply with the Code requirements for disclosing the vote of each member present.

Conclusion - Response accepted.

IV-G-15      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-15      Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.

IV-I-15      Financial Condition - The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$377,824 at June 30, 2015.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - This account will be monitored in the future.

Conclusion - Response accepted.

**CITY OF FOREST CITY, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2015**

**Part IV: Other Findings Related to Required Statutory Reporting:** - continued

- IV-J-15      Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this matter to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.
- Recommendation - The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.
- Response - We will look into this.
- Conclusion - Response accepted.
- IV-K-15      Transfers - The City transferred funds that were neither budgeted for nor were documented in the minutes for approval by the City Council.
- Recommendation - Transfers should be approved by the City Council or by budget.
- Response - We will do this.
- Conclusion - Response accepted.
- IV-L-15      Mileage Reimbursement - The City reimbursed mileage at a rate in excess of the Internal Revenue Service allowable rate. The City is not in compliance with Chapter 70A.9 of the Code of Iowa.
- Recommendation - The City should change its mileage reimbursement rate when the Internal Revenue Service mileage reimbursement rate is changed.
- Response - We will do this in the future.
- Conclusion - Response accepted.
- IV-M-15      Sales Tax - Sales tax on sewer services provided to non-residential commercial operations was not charged. Also, the solid waste fee for commercial services was not being uniformly assessed.
- Recommendation - The City should charge sales tax on sewer services provided to non-residential commercial operations in accordance with section 701-26.72 of the Iowa Department of Revenue Administrative Rules and Regulations. Also, the City should uniformly assess solid waste fees for commercial services.
- Response - This will be corrected.
- Conclusion - Response accepted.

CITY OF FOREST CITY, IOWA  
Schedule of Findings  
Year Ended June 30, 2015

**Part IV: Other Findings Related to Required Statutory Reporting:** - continued

IV-N-15      Interest Income - Interest income for a certificate of deposit was not properly allocated between funds.

Recommendation - The City should allocate the proper revenue between funds for certificate of deposit interest.

Response - We will do this.

Conclusion - Response accepted.